

INDIAN COMMERCIAL VEHICLE INDUSTRY

Slowdown imminent as headwinds gain momentum

QUARTERLY REVIEW | DECEMBER 2011



ICRA RATING FEATURE

Summary

After registering a strong 30%+ growth over the past two fiscals, the growth in the Commercial Vehicle (CV) industry has somewhat slowed down during the current year. During April-November 2011, the domestic CV industry posted a growth of 20.0% on YoY basis riding on a strong 29.3% growth in LCVs and a fairly muted 9.4% in M&HCVs. Steadily rising interest rates, contracting industrial output and a considerable increase in vehicle prices coupled with high-base effect of previous years are the main factors impacting growth. The operating environment for fleet operators has been deteriorating over the past six months. All factors that influence the viability appear to be weighing against the profitability and cash flows of operators. The sharp rise in overall cost of ownership combined with considerable rise in operating costs and an almost stagnant freight rates in a confluence are displaying signs of pressures on fleet operators. Our channel check suggests that several operators have postponed their expansion plans in view of rising interest rates and expectation of slowing industrial growth. Capacity utilisation is gradually declining and freight rates continue to remain stagnant despite rise in operating expenditure for operators. On the financing front, some of the financiers have also started tightening lending norms in addition to the rise in interest rates. Overall, the near term risks against M&HCV demand has increased significantly, though structurally, the demand over a longer period remains intact, subject to normalization of economic activity over the next 2-3 quarters.

Given the current environment where the growth in industrial activity is at a two year low and the operating environment for fleet operators is gradually weakening, we expect the industry to defer capacity addition. As a result, the outlook for the near term appears to be subdued, resulting in a slowdown in new vehicle sales. Among segments, M&HCVs which tend to be more influenced by the macro-economic indicators is likely to register a weaker performance over the near term as against the steadily growing LCV segment. The proliferation of the hub-n-spoke model, improving last mile connectivity and last but not the least the strong demand originating from rural segment is likely to drive demand in the LCV segment over the medium term. We expect the M&HCV industry to grow by 3-4% in FY12 and LCV industry by 17-18% in FY12. We maintain our long-term growth outlook for M&HCV with a CAGR (%) of 9.5-11.5% and for LCV with CAGR of 11-13% over the next five years. In terms of the competitive landscape, while some of the established but smaller OEMs have expanded their product portfolios and market coverage, the competition from new players is unlikely to hurt the strong market position of incumbents in the near term as the former go through a phase of developing credible track record for their products and create market reach, an imperative for the CV industry.

Table 1: Segment-wise volumes

Segments	Volumes					YoY Growth (%)				
	FY08	FY09	FY10	FY11	FY12e*	FY08	FY09	FY10	FY11	FY12e
M&HCVs	274,582	183,495	244,944	322,788	332,472	-12.6%	-7.0%	43.4%	22.9%	3-4%
LCVs	215,912	200,699	287,777	353,620	413,735	-0.4%	-33.2%	33.5%	31.8%	17-18%

Source: SIAM, ICRA's Estimates; * computed at 3% growth for M&HCVs and 17% for LCVs

Corporate Ratings

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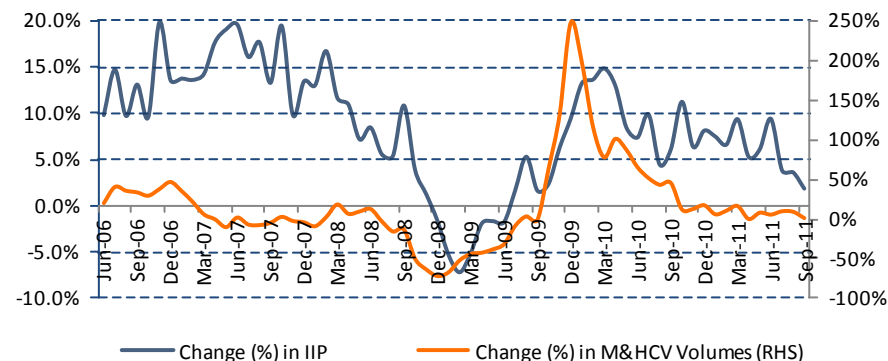
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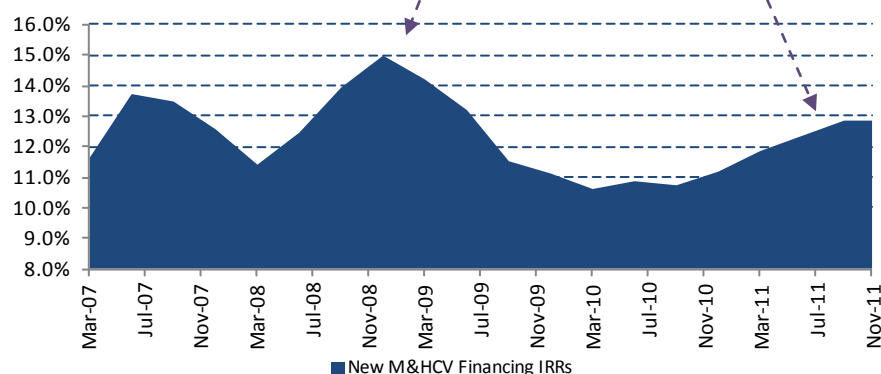
Domestic Commercial Vehicle Industry: Key Trends in Growth Drivers

Exhibit 1: Slowing M&HCV sales map deceleration in industrial activity



Source: MOSPI, SIAM, ICRA Estimates

Exhibit 2: Trend in New M&HCV Financing IRRs



Source: ICRA Estimates

Macro headwinds are gaining momentum...

Over the past few months, the macro-economic environment in India has weakened considerably led by a whole host of factors. The sharp rise in interest rates as a result of the considerable credit tightening measures to overcome accelerating inflationary pressures, contraction in industrial activity and an overall decline in business optimism have collectively resulted in moderation in GDP during the current year. These factors combined with relatively subdued pick up in infrastructure spending have started weighing on the demand for new CVs especially the heavy commercial vehicle segment. In the recent months, the index of industrial production (IIP) which serves as a proxy for the CV sector has contracted sharply and has registered one of its lowest growths in the past two years.

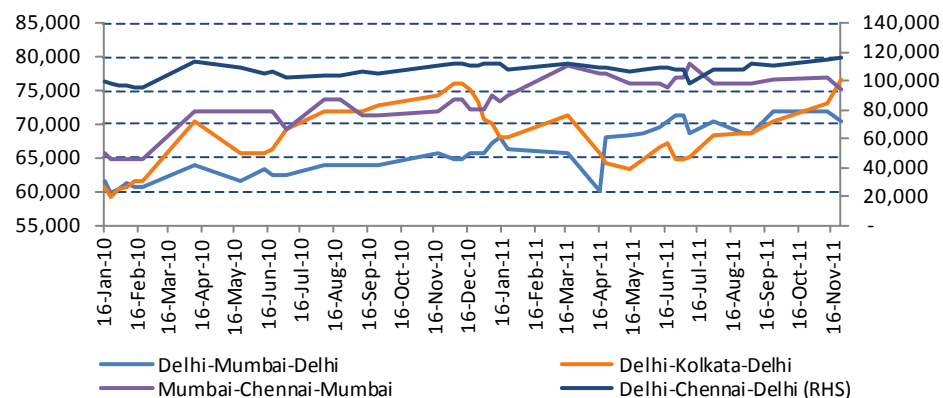
Our channel check suggests that there is a definite slowdown in freight availability led by some of the core manufacturing sectors. The impact is more visible in certain segments like container movement, mining, automobiles (led by slowdown in passenger vehicle segment) and heavy industries such as steel. Given the high sensitivity to industrial activity and weakening operating metrics for fleet operators, we expect the industry to witness a subdued demand as capacity addition takes a back seat.

...and so are credit availability indicators and lending rates

With over 90% financing penetration, credit availability plays a significant role in influencing the demand for CVs besides other demand drivers. After being stable for almost a year, lending rates for CV financing have also been on an upward trend over the past six months prompted by credit tightening measures. Although rates differ across asset classes and depend majorly on consumer profile, the lending rates for new M&HCV financing have increased by as much as 200-250 bps over the last six months. With pressure on fleet operator's cash flows, some of the financiers have also tightened their credit norms and reduced LTVs for new customers. The rise in interest rates coupled with the successive price increases by OEMs to combat the impact of commodity prices has substantially increased the ownership cost. The only silver lining so far to the overall picture has been that delinquencies across asset classes have not shown signs of deterioration and continue to remain much below the levels reached during the 2008 meltdown. Although some of the financiers have indicated the collections are increasingly becoming difficult and operators especially with small fleets are servicing their obligations with a delay. Some of the pockets like the mining belt have also been impacted off late.

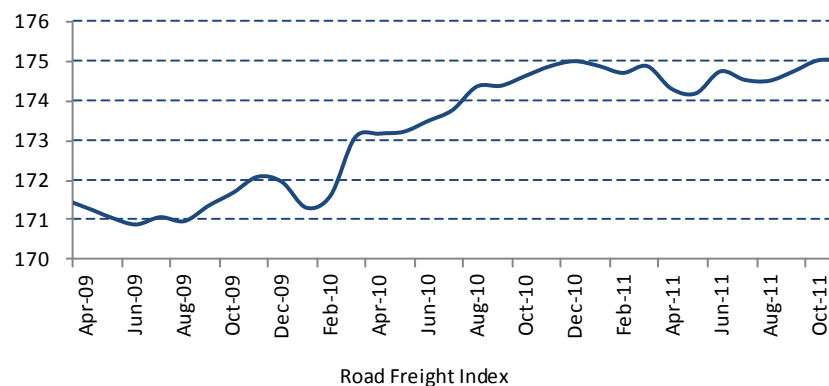
Domestic Commercial Vehicle Industry: Key Trends in Growth Drivers

Exhibit 3: Trend in freight rates; recent increase reflects diesel price hike



Source: CMIE, ICRA Estimates; Absolute Freight rates (in Rs.) for 16t truck

Exhibit 4: Trend in Road Freight Index



Source: TCI, RFI is an index based on freight rates originating from 24 major stations

Table 2: Trend in Diesel Prices

Latest Revisions	Diesel Prices/Litre
July 2011	41.29
June 2011	41.12
November 2010	37.75

Source: Petroleum Planning & Analysis Cell (PPAC)

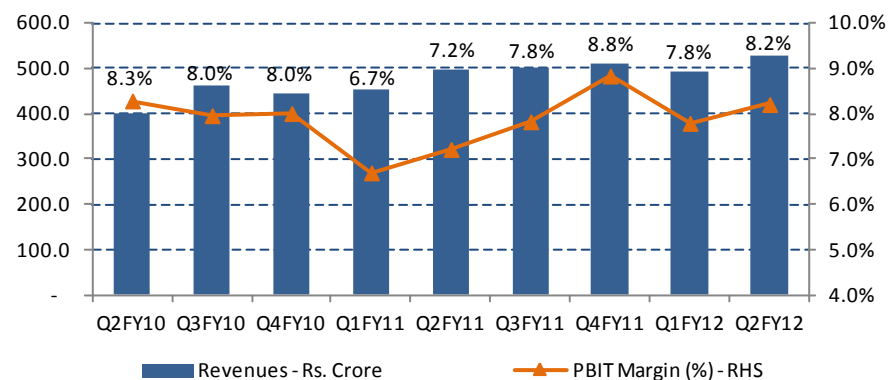
Rise in ownership cost + stagnant freight rates act as double whammy for operators

The operating environment for fleet operators has been deteriorating over the past six months. All factors that influence the viability appear to be weighing on the profitability and cash flows of operators. The sharp rise in overall cost of ownership combined with considerable rise in operating costs and an almost stagnant freight rates in a confluence are displaying signs of pressures on fleet operators.

Our channel check indicates that freight rates across major routes have only risen to the extent of diesel price increases and the rise has not been enough to compensate for the inflation in other operating costs. Freight rates from Southern & Eastern regions have remained marginally weak, while those from Northern & Western markets continue to hold on.

In such a scenario when pressure is building up on small fleet operators, large organized players continue to exhibit a relatively stable earnings profile. Most of the organized players cater to institutional clients on long-term contracts that ensure pass through of operating costs especially variation in fuel prices. Additionally, the organized logistics players largely depend on market-sourced fleet which considerably reduces the risk during periods of slowdown and adds to their bargaining power while negotiating on freight rates.

Exhibit 5: Trend in operating profitability for transport service providers



Source: Company Data, ICRA Estimates

Segment-wise Trends: M&HCV Segment

Exhibit 6: Trend in Domestic M&HCV Sales

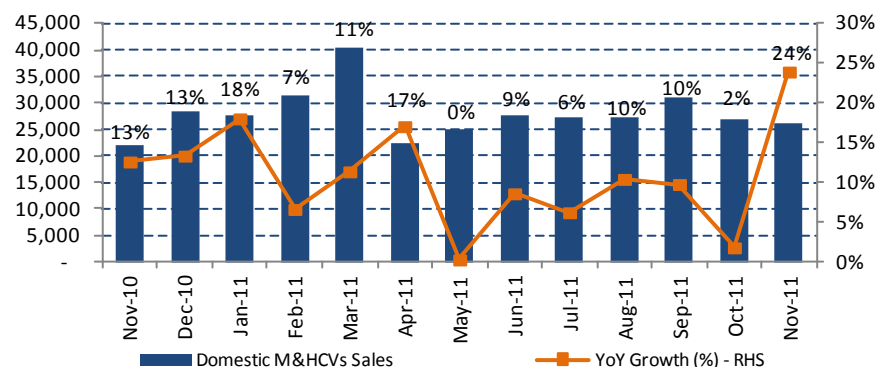
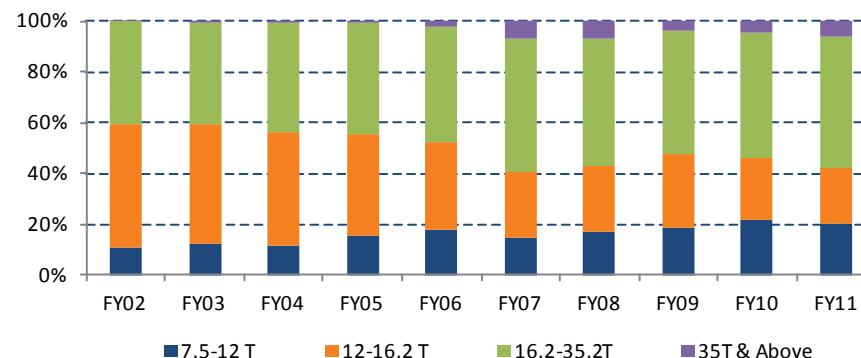


Exhibit 7: Trend in Tonnage-wise Mix in M&HCV



Source: SIAM, ICRA Estimates

Viability Analysis – higher tonnage trucks offer operating leverage

Per Month Analysis	9T Payload Truck	16T+ Payload Truck
On Road Vehicle Cost	11,37,000	16,29,000
EMI*	24,559	35,185
Key Assumptions		
Delhi-Mumbai-Delhi (Distance)	2,814 km	2,814 km
No. of Trips/Month	2.8	2.8
Average Billing/Trip	45,000	72,000
Fuel Efficiency (Km/Litre)	5.0	3.5
Revenue Generation – A	127,932	204,691
Fuel Cost	66,064	94,377
Tyre Replacement Cost	11,520	15,360
Driver & Cleaner Cost	16,500	16,500
Insurance Cost	2,000	3,000
Other Operating Cost	6,397	10,235
Total Expenses – B	102,481	139,472
Net Cash Inflow = A-B	25,451	65,219
EMI	24,559	35,185
Free Cash Inflow	892	30,034
Free Cash Inflow/Net Cash Inflow	4%	46%

Source: ICRA Estimates; * Assumes an LTV of 85%; IRRs – 13.0%; Tenor – 4 Years

Slowdown in demand for M&HCVs is imminent

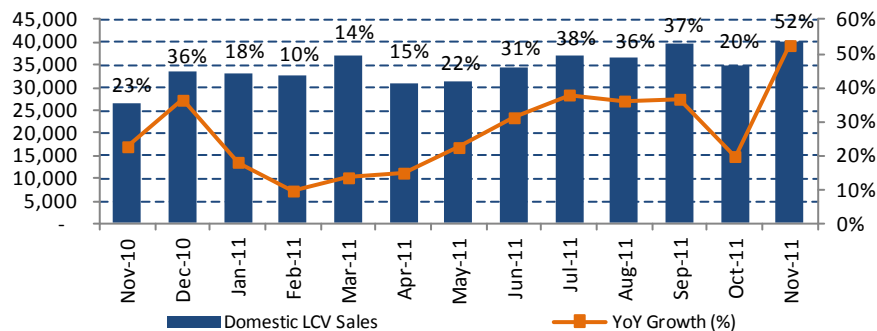
During YTD FY12, the M&HCV segment has grown by 9.4% in line with our earlier estimate wherein we had expected it to slowdown but not witness a hard landing like the previous downturn. Despite firming up headwinds, the segment has been more resilient as load availability continued to remain stable during the first half. However, since the beginning of the current quarter, there are initial signs of slowdown which coupled with pressures on operator's cash flows post a relatively weak outlook for M&HCV demand in the near term. Within the segment, MAVs, tractor trailers which tend to have higher dependence on industrial activity have been impacted more, while ICVs have continued to exhibit fairly stable growth.

Emergence of hub-n-spoke model is playing out

The trucking segment in India is witnessing interesting trends, while the M&HCV segment is witnessing steady increase in share of heavy duty, long haulage trucks owing improvement in road and highway infrastructure, the LCV goods segment is seeing increasing share of sub 1T segment with the emergence of the hub-n-spoke model and increasing demand for last mile connectivity. As shown along side, higher tonnage trucks (16T+) offer higher profitability (benefits of operating leverage) as operating costs (besides fuel) are similar to lower tonnage vehicles. Besides improving highway infrastructure, the trend towards higher tonnage trucks has also been supported by the introduction of newer, advanced platforms/vehicles by both incumbents as well as foreign OEMs.

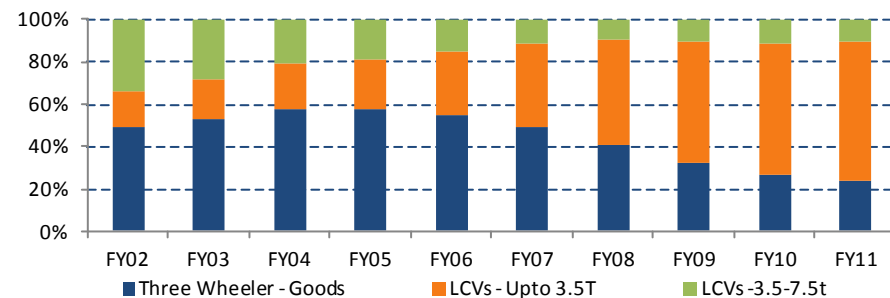
Segment-wise Trends: LCV Segment

Exhibit 8: Trend in Domestic LCV Sales



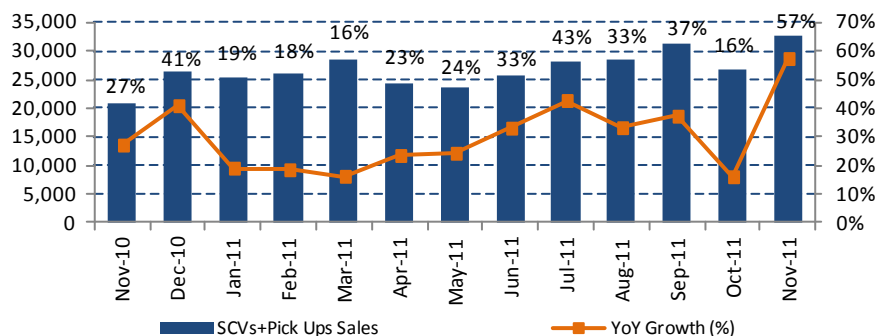
Source: SIAM, ICRA Estimates

Exhibit 9: Share of SCVs (<3.5t) vehicles has been steadily expanding



Source: SIAM, ICRA Estimates

Exhibit 10: SCVs + Pickups continue to drive growth



SCVs driving growth in this segment

Despite headwinds building up, the LCV segment continues to grow steadily and has so far managed to buck the overall slowdown being witnessed in other segments. It has in fact been one of the strongest growing segments in the entire automobile space during the current year, registering a growth of 29.3% YTD November 2011. The SCV segment within LCVs which accounts for over 3/4th of the LCV market is driving growth on back of strong demand for transportation of consumer goods within cities, replacement demand from upper-end three wheelers and healthy viability offered to FTUs. Our channel check indicates that while in the initial phase, demand for SCVs was primarily driven by tier 1 cities, but now tier II & III cities are also catching up. In the sub 1t segment, passenger variants have also been successful, replacing the clumsy upper-end three wheelers, which traditionally cater to traffic in outskirts of cities.

We expect the LCV segment to grow by 17-18% in FY12 on YoY basis despite rising interest rates for CV financing. The demand for LCVs will continue to be driven by SCV, particularly the sub 1t category vehicles, which with gradual shift towards hub-n-spoke model and demand for transportation of consumer goods is gaining acceptance.

Competitive intensity likely to increase but won't impact the positioning of established players in the near term

In India, the LCV segment is currently dominated by sub 1T and pick-up segment vehicles, where Tata Motors and M&M with their strong product offerings command a very strong market position. The strong growth witnessed in the sub 3.5T segment and growing market size has prompted several players, particularly 3W manufacturers such as Piaggio, M&M and Force Motors to enter the sub 1T segment. Ashok Leyland through its tie-up with Nissan launched their first variant in the sub 1T segment recently. With increasing demand for transportation of consumer goods (i.e. intra-city freight), the demand is gradually shifting towards 1-2T segment vehicles. Tata Motors has recently launched an upgraded version of Tata Ace and ALL-Nissan first vehicle, Dost is also poised to fit into the same category. While we expect competition to intensify in the medium term with increasing competition from local players and some of the new entrants, the strong product offerings, brand equity, distribution & sales network of incumbents would continue to act as entry barrier for new players. More importantly, new players will have to go through the learning phase as their products establish operating economics/viability for operators in the market over a period of time. Players such as ALL, with strong understanding of the Indian truck market will certainly have an edge over international OEMs both in terms of achieving market reach as well as setting up supplier/vendor base.

Key Extracts from Channel Check

We interacted with a host of CV dealers, financing institutions and a few fleet operators to understand the key trends in the CV sector and build our near term outlook. A collective view from our channel check paints a relatively subdued picture for the sector in the near term as headwinds in the form of lower freight availability (as a result of declining industrial production) and rising interest rates are weighing on overall fleet demand and deteriorating viability metrics for fleet operators.

Interaction with Fleet Operators

- Demand for logistics have started slowing down in line with the steadily weakening industry activity; the impact is more pronounced in certain sectors particularly container applications, automobiles and heavy industrial applications like steel etc.
- Despite increasing cost pressures, freight rates on major routes remain largely flat (after adjusting for the hike in diesel prices)
- EMIs on truck loans have gone up substantially with increase in vehicle prices and rise in financing cost; this coupled with rise in diesel prices, tyre costs (a major cost component), driver salaries and increase in toll charges, the operating environment for road freight segment has weakened substantially
- With reduced load availability, increased EMIs and cost pressures, viability for fleet operators is under pressure; small fleet operators are more vulnerable at present
- Comparatively, organized large players with diversified operations, long-term contracts with clients and ability to pass-on the fluctuation in operating costs especially diesel prices are relatively better positioned

Interaction with Financial Institutions

- Liquidity tightening measures implemented by RBI and inflationary pressures have pushed up lending rates for CVs by 200-250 bps over the two quarters
- However, some of the financiers in an attempt to chase growth in disbursements/market share are still offering competitive rates to organized players; with rising cost of borrowings, financiers are focusing on yield management practices such as increasing exposure in the LCVs and used truck segments
- Demand in rural markets especially for LCVs is holding up on back of healthy agricultural produce and scope for improving last mile connectivity
- Some of the financiers has also started tightening the lending norms (i.e. lower LTVs) and due diligence process
- Early signs of slowdown in freight availability and inadequate improvement in freight rates remain key concern and eventually could start showing its impact on delinquencies

Interaction with Commercial Vehicle Dealers

- There is a definite stress on operator's cash flows; with viability of new fleets unattractive, fleet operators included the big ones are cutting back on capacity addition
- Slowdown is being felt across segments/applications but multi-axle vehicles (MAVs), tractor trailers appear to be more vulnerable; slowing demand from container applications, heavy industries like steel and surplus capacity available in the long-haulage, heavy duty trucks is mainly responsible
- As most of the STUs have added capacity (as part of JNNURM) over the last two years, demand for buses has got impacted during the current year
- Despite slowing sales, pricing power continues to remain in the hands of OEMs as reflected by successive price increase to combat higher input material costs and stable discount levels; unlike passenger vehicles, interest subvention is also not so common in case of CVs
- Demand for rural markets especially for LCVs is holding up on back of healthy agricultural produce and scope for improving last mile connectivity

Competitive Landscape

With volumes of over 670,000 units in FY11, the Indian Commercial Vehicle Industry is gradually attaining a meaningful size and scale that makes the industry attractive for international OEMs to have a presence. Despite being a highly price sensitive and competitive market, the profitability indicators for OEMs in India are amongst the best when compared to those in the developed markets and some of the other emerging markets owing to a competitive cost base. These factors put together have attracted several major international players to the Indian market. The new entrants are following a two-pronged strategy for emerging markets (a) adapting premium products for local markets and (b) entering the low-cost segment through local engineering, sourcing and production. In India, most of international players have forged alliances with local partners to help them understand the market in a better way and address it with products that meet India specific requirements. While there are inherent advantages for these JV in form of technical and design capabilities of the foreign partners and in-depth understanding of the local JV partners, the recent JV call-offs have raised questions on the viability of such alliances in the CV space. Globally, as well in most of the developed markets, local CV OEMs lead the domestic market as they benefit from their understanding of the market requirements. Moreover, a widespread distribution and servicing footprint along with availability of spares is equally important in case of CVs.

Exhibit: Investment plans by some of the new OEMs in India

International Player	Indian Partner	Segment	Capacity (units/year)	Comments
Daimler	-	M&HCV	100,000	To start commercial production by mid CY 2012
ISUZU	Swaraj	M&HCV	18,000	Recently introduced 12T truck, planning to enter into >16T category
MAN AG	Force Motors#	M&HCV	24,000	Presence into niche heavy duty HCV segment, especially large tippers
Volvo	Eicher	M&HCV	48,000	Strong presence in 5-12T segment. Gaining traction in HCV segment
Navistar	M&M	M&HCV	50,000	Gradually ramping up production with initial focus on 25T+ category
Beiqi Foton Motors	-	LCV/MCV	100,000	First phase of production by early CY13, wherein engines will be supplied by Cummins.

Source: SIAM, ICRA Estimates; # likely to exit the JV soon

In the M&HCV segment, several international OEMs including Daimler, Man, Navistar (though JV with M&M) and Volvo (through JV with Eicher Motors) have either launched or are in the process of introducing their vehicles in the Indian market. Among them, M&M is appears to be a formidable player given its strong brand equity in the pick-ups and UV segment, knowledge of the domestic market and established vendor & distribution network. However, despite its edge over foreign players, M&M (along with its JV partner – Navistar) is finding it challenging in ramping up volumes.

Going forward, while we expect competitive pressures to intensify with the emergence of new players, the established players would continue to protect their market position owing to their competitive cost base, strong brand value among the trucking community and widespread distribution & service network. Additionally, in the trucking business, decision to purchase a particular vehicle also depends on its operating economics and re-sale value. Thus, new players will have to go through the initial phase, wherein their products establish a brand value among fleet operators. OEMs have also been strengthening their portfolio as well as distribution and service network to combat rising competitive pressures. The launch of advance truck formats which have been develop to compete against the more sophisticated product offerings from international OEMs are steps in this direction. In terms of financial performance, CV OEMs in India continue to enjoy pricing power as reflected by consistent price escalations and stable discount levels which continue to support a stable earnings profile for those barring one-off exceptional events.

TATA MOTORS LIMITED - Performance Overview in Q2 FY12

Standalone operations face headwinds; but Jaguar Land Rover continues to support consolidated performance

Tata Motors - Fact Sheet

Year of Incorporation	1948
Promoter Group	Tata Group
Product Portfolio	CVs, PVs and Luxury brands - JLR
Manufacturing Facilities	Jamshedpur, Pune, Lucknow, Pantnagar, Sanand in India
Segments Present	Market leader in CVs; 3 rd largest player in PVs in India Luxury brands – JLR
Revenues FY11	Rs. 125,244.3 Crore
PAT FY11 (Concern Share)	Rs. 9,273.6 Crore
Net Worth FY11 (Rs. Crore)	Rs. 19,026.8 Crore

Revenue Growth –

During Q2FY12, Tata Motors reported a consolidated operating income of Rs. 36,197 crore (up 26.9% on YoY basis) and an OPBDIT of Rs. 4,504 crore (up 12.6%). The company's performance on YoY basis was fairly stable despite the weakness in the Indian operations, which was compensated by the strong operating performance in JLR during the quarter. The weakness in company's Indian operations was largely on account of the sharp contraction in the passenger vehicle business, which de-grew by 21% over the previous year owing to slowing passenger vehicle sales in India and rising competitive pressures. Despite rising interest rates and relatively flat freight rate, the CV segment managed to report a growth led by strong growth in the LCV segment.

Profitability –

In terms of the profitability, the company's OPBDIT margins at 12.4% during the quarter were 160 bps lower on YoY basis and almost flat on QoQ basis. The trend in margins largely reflects the contraction in profitability in the standalone operations which has been supported by relatively stable margin profile in JLR.

Other Highlights -

- Capital expenditure during H1FY12 stood at Rs. 6,610 crore, which included GBP 709 million in JLR and Rs. 1,160 crore in the Indian operations
- Company's consolidated debt levels increased to Rs. 43,973 crore from Rs. 32,791 crore (March 2011) on account of increase in working capital borrowings and the \$500 million ECB
- On net automotive debt (excluding borrowings related to vehicle financing business) level, company's leverage stood at 0.7x with cash & cash equivalents of Rs. 18,125 crore

ICRA Ratings

Long Term	[ICRA]AA-
Short Term	[ICRA]A1+
Outlook	Stable

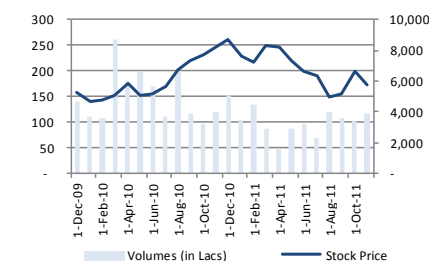
Shareholding Pattern (%)

Promoters	35.05%
FII's	21.88%
DII's	15.43%
Others	27.64%

Price Performance (%)

	3M	12M
Tata Motors	21.6%	-33.5%
BSE Auto	-3.7%	-17.0%
BSE Sensex	-5.0%	-19.8%

Stock Movement



Source: Company Data, ICRA Estimates

Table: Tata Motors' Consolidated Kev Financial Indicators

	Q2 FY10	Q3 FY10	Q1 FY11	Q2 FY11	Q3 FY11	Q1 FY12
Operating Income	21,088.5	25,974.2	27,055.6	28,519.2	31,685.2	33,572.5
Growth (%) - YoY	-8.2%	46.7%	64.2%	9.8%	22.0%	24.1%
OPBDIT	1,505.9	2,971.8	3,855.4	4,001.6	4,488.6	4,235.8
PAT	(2.2)	650.3	1,988.7	2,223.0	2,424.4	1,993.9
OPBDIT/OI (%)	7.1%	11.4%	14.2%	14.0%	14.2%	12.6%
PAT/OI (%)	N.A	2.5%	7.4%	7.8%	7.7%	6.0%

Source: Company Data, ICRA Estimates; Amounts in Rs. Crore

Bloomberg Code **TTMT**
Market Capitalisation Rs. 51,981 Crore
Valuations

	FY12e	FY13e
Price/Earnings	6.5	5.9
Price/Sales	0.4	0.3

Source: Bloomberg

TATA MOTORS LIMITED: Business Overview

Table: Tata Motors' Standalone Key Financial Indicators

In Rs. Crore	Q2 FY11	Q2 FY12	Q1 FY12
Operating Income	11,248.9	12,953.8	11,897.9
Growth (%) - YoY		15.2%	14.2%
OPBDIT	1,094.7	872.9	966.6
Less: Depreciation	331.6	386.9	365.1
Less: Interest Charges	307.2	212.1	253.2
Other Income	77.5	56.8	115.5
Exceptional Gain/Loss	3.8	(294.2)	2.4
PBT	537.2	36.5	466.3
Less: Tax	(104.5)	65.5	65.0
PAT (Concern Share)	432.7	102.0	401.3
OPBDIT/OI (%)	9.7%	6.7%	8.1%
PAT/OI (%)	3.8%	0.8%	3.4%

Source: Company Data, ICRA Estimates

Table: Trend in Tata Motors' volumes across segments

	Q2 FY11	Q2 FY12	Change (%)	Q1 FY12
Commercial Vehicles	110,603	130,216	17.7%	113,186
M&HCVs	48,106	50,716	5.4%	45,570
LCVs	62,497	79,410	27.1%	67,616
Passenger Vehicles	82,591	65,082	-21.2%	69,529
Micro	22,624	7,402	-67.3%	21,979
Compact	38,697	39,061	0.5%	31,593
Mid Size	9,211	5,202	-43.5%	3,735
Executive	2,214	1,117	-49.5%	1,115
Premium	67	194	189.6%	126
Utility Vehicles	9,556	10,126	6.0%	9,433
MPVs	52	1,980	3707.7%	1,548
Exports	14,451	16,192	12.0%	14,891

Source: Company Data

Weak passenger vehicle business and cost-based headwinds impacts operating performance; MTM on forex liabilities were add to the woes

Performance Update

Tata Motors operating income grew by 15.2% during the quarter driven largely by improvement in realization (higher shares of CV and pricing action (1%)) as volumes grew marginally by 1.8% at standalone level. While volumes in the CV segment grew by 17.7% driven by 27.1% growth in LCVs and 5.4% growth in M&HCVs, the passenger vehicles segment posted a stark underperformance to the underlying industry average by reporting a 21.2% drop in volumes. Aggressive launches in the compact and mid-size segment by new entrants and industry-wide factors such as increased interest rates and fuel prices have impacted the company's market position. As a result, Tata Motors' market share in the passenger car segment dropped to 10.9% in Q2FY12, while in the UV segment it stood at 11.2% (FY11 – 13.7%).

Despite a favourable product mix, operating margins of standalone operations contracted by 300 bps on YoY basis on back of lower volumes and higher marketing spends in the passenger vehicle segment and overall cost pressures, including commodity costs. The drop in EBITDA combined with exchange loss (Rs. 294 crore) on revaluation of forex liabilities resulted in a sharp drop in PBT to Rs. 36.5 crore compared to Rs. 537.2 crore in Q2FY11

In line with our view, the M&HCV segment has so far been resilient to the macroeconomic headwinds; however, given the weakening IIP growth numbers and slowdown in capital investments, we expect the outlook on the CV segment to be weaker for H2FY12. This coupled with Tata Motors' weakening market position in the passenger car segment is likely to result in subdued performance in the near term given the intensifying competitive pressures.

Key Takeaways from Q2FY12 Call

- High interest rates, fuel price hikes and slowdown in economic activity is likely to moderate the growth in the M&HCV segment going forward
- However, strong consumption demand continues to drive growth in the LCV segment; both Ace family and pickup trucks demonstrated strong growth during the quarter
- Ramp up at Dharwad plant (for ACE family) is on track and expected to improve production going forward
- Slowdown in the bus segment follows the fulfillment of orders received under JNNURM scheme
- Pricing power continues to remain in the hands of OEMs; Tata Motors took an average 1% increase in vehicle prices to combat the impact of cost pressures

ASHOK LEYLAND LIMITED

Continued sluggishness in Southern markets and slowdown in higher tonnage trucks impacts volumes

Ashok Leyland - Fact Sheet	
Year of Incorporation	1948
Promoter Group	Hinduja Group
Product Portfolio	Medium & Heavy Commercial Vehicle
Manufacturing Facilities	Ennore (TN), Hosur (Kar), Alwar (Raj), Bhandara (Mah), Pantnagar (Uttarakhand)
Segments Present	Strong presence in HCV (>16T) segment , recently forayed into sub 2T segment
Operating Income FY11	Rs. 11,422.5 Crore
PAT FY11 (Concern Share)	Rs. 631.3 Crore
Net Worth FY11 (Rs. Crore)	Rs. 2,652.4 Crore

	Q2 FY11	Q2 FY12	Q1 FY12
Operating Income	2,714.0	3,094.6	2,495.5
YoY Growth (%)		14.0%	6.3%
OPBDIT	304.8	331.2	244.6
Less: Depreciation	64.1	85.9	84.7
Less: Interest Charges	39.5	62.7	53.3
Other Income	6.2	10.3	4.1
Exceptional Gain/Loss	-	-	-
PBT	207.5	192.9	110.7
Less: Tax	40.5	38.8	24.5
PAT (Concern Share)	167.1	154.1	86.3
OPBDIT/OI (%)	11.2%	10.7%	9.8%
PAT/OI (%)	6.2%	5.0%	3.5%

	Q4 FY10	Q1 FY11	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12
Operating Income	2,939.0	2,348.0	2,714.0	2,227.2	3,828.5	2,495.5	3,094.6
Growth (%) - YoY	141.3%	155.8%	72.1%	22.5%	30.3%	6.3%	14.0%
OPBDIT	378.4	234.8	304.8	166.0	509.9	244.6	331.2
PAT	222.7	122.6	167.1	43.4	298.2	86.3	154.1
OPBDIT/OI (%)	12.9%	10.0%	11.2%	7.5%	13.3%	9.8%	10.7%
PAT/OI (%)	7.6%	5.2%	6.2%	1.9%	7.8%	3.5%	5.0%

Source: Company Data, ICRA Estimates; Amounts in Rs. Crore

Revenue Growth – During Q2 FY12, Ashok Leyland Limited (ALL) reported a revenue growth of 14.0% largely on the back of improved realizations as volumes dropped by 4.4% on YoY basis. The decline in volumes was largely attributable to the continued weakness in the Southern markets and slowdown in higher tonnage - multi-axle vehicles, a segment where ALL has strong presence. Additionally, the high base effect of Q2FY11 (impact of pre-buying ahead of changes in emission norms pushed M&HCV volumes) and reduced demand for buses from STUs affected volume growth. On QoQ basis, however, ALL's M&HCV volumes registered healthy growth of 22.4% resulting in 24.0% growth in top line.

Profitability – In terms of profitability, ALL's operating margins declined by 50 bps on YoY basis to 10.7% largely on account of increase in employee expenses and other expenditure. The company added expanded its manpower strength in the marketing as well as manufacturing, resulting in additional employee expenses of ~Rs 20 crore. Operating margins were also hit by onetime advertising expenses (~Rs 5 crore) and annual maintenance charges (~Rs 8 crore). On QoQ basis, operating margins improved by 90bps mainly on account of higher volume off take and hence improved operating leverage.

Key Development - ALL launched its first LCV product 'Dost' in Q2FY12 with its JV partner Nissan. Sales within Tamil Nadu will take place through the JV whereas ALL will market the product in the rest of the country. ALL is targeting 10,000 units during H2 FY12, depending upon the demand situation and production ramp-up.

ICRA Ratings

Long Term	[ICRA]AA-
Short Term	[ICRA]A1+
Outlook	Positive

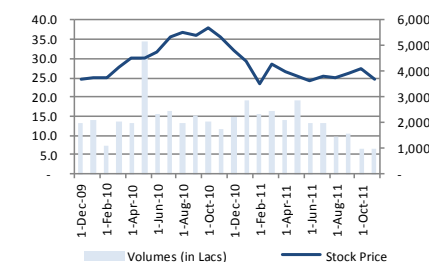
Shareholding Pattern (%)

Promoters	38.6%
FII's	16.2%
DII's	15.4%
Others	29.8%

Price Performance (%)

	3M	12M
ALL	-4.8%	-28.3%
BSE Auto	-3.7%	-17.0%
BSE Sensex	-5.0%	-19.8%

Stock Movement



Bloomberg Code AL
Market Capitalisation Rs. 6,572 Crore
Valuations

	FY12e	FY13e
Price/Earnings	10.7	8.9
Price/Sales	0.5	0.4

Source: Bloomberg

ASHOK LEYLAND LIMITED

Incorporated in 1948 as Ashok Motors, Ashok Leyland Limited (ALL), the flagship company of Hinduja Group is the second-largest manufacturer of medium/heavy-duty commercial vehicles in India. Its principal products include buses, trucks, engines, and defense & special vehicles and have six manufacturing plants with total capacity of 150,500 units as on March 2011. ALL has a significant presence in the M&HCV bus segment and the goods segment in the domestic market with approximately 39.7% and 19.7% market share respectively for the seven month period ending October-11.

Table: ALL's volume breakup across segment

Ashok Leyland	Q2 FY11	Q2 FY12	Change (%)	Q1 FY12
Goods	17,926	17,225	-3.9%	13,755
7.5T-12T	942	1,024	8.7%	883
12T-16.2T	5,342	6,228	16.6%	4,833
16.2T-25T	6,480	4,906	-24.3%	3,742
>25T	2,412	3,278	35.9%	2,748
Haulage Tractor				
16.2T-35.2T	1,414	708	-49.9%	654
>35.2T	1,336	1,081	-19.1%	895
Passenger	6,511	6,125	-5.9%	5,328
5T - 7.5T	153	278	81.7%	194
7.5T-12T	500	781	56.2%	750
12T-16T	6,011	5,344	-11.1%	4,578
Total	24,437	23,350	-4.4%	19,083

Source: SIAM, ICRA Research; Volume include Export sales

Table: Trend in ALL's domestic M&HCV market share

ALL's Sales Breakup	Q2 FY11	Q2 FY12	Q1 FY12
M&HCV Goods	16,658	15,547	12,277
M&HCV Passenger	5,435	4,741	4,355
Total M&HCVs	22,093	20,288	16,632
Market Share (%)			
M&HCV Goods	24.9%	21.1%	19.2%
M&HCV Passenger	41.5%	40.2%	40.4%
Total M&HCVs	27.6%	23.7%	22.2%

Source: SIAM, ICRA Research

Performance Update

ALL has largely followed the overall trend in industry volumes; however over past few months, the company has underperformed as compared to overall industry growth. ALL is traditionally strong in high tonnage segment, wherein the growth has moderated due to macroeconomic headwinds related to rising financing cost, fuel cost and slowdown in overall economic activity. Additionally, ALL has been a strong player in the Southern market, which has been impacted by elections in Tamil Nadu (in Q1FY12), Telangana issue and ban on iron ore mining in Karnataka.

ALL's market share in goods segment, which fell sharply during Q1 FY12, has shown improvement during current quarter. The growth was largely driven by strong recovery in 12T-16.2T and 16.2T-25T segment, which has grown at 28.9% and 31.1% respectively on QoQ basis (16.6% and -24.3% on YoY basis). By end of current fiscal, the management is hopeful to achieve ~25% market share in domestic M&HCV segment supported by strengthening its presence in Northern/Eastern India.

The tractor-trailer segment is facing strong headwind on account of slowdown in transportation of industrial commodities and moderation in foreign trade, while the tipper segment (>25T), which derives demand from the construction and infrastructure projects witnessed robust growth. Over past few months, bulk purchase by fleet operators has slowed down and there is increasing activity towards retail sales where ALL has relatively modest presence. Moderation in freight rates especially in southern/eastern region negatively affects customer sentiments, especially for large fleet operators. In bus segment, despite decline in volume, ALL has maintained its market share ~40%.

Key takeaway from Q2 FY12 conference call:

- Volumes declined by ~4% during Q2 FY12 largely due to high base effect of Q2 FY11, as customers advance their purchase ahead of change in emission norms from October'10. ALL which is traditionally strong in Southern India lost volume on account of social unrest in Andhra Pradesh (Telangana issue) and also due to slack demand from State Transport Utilities (STUs).
- Export sales continue to remain robust as volumes grew by 37% to 3,230 units in Q2 FY12. The management is confident of achieving export of 13,000 units in current fiscal.
- The company had undertaken a price hike of ~1% in July in domestic markets which when coupled with higher revenues from defense kits led to a 1.2% QoQ increase in realizations.
- Volumes from Pantnagar unit stands at ~7,000 units and U-Truck contributed ~2,000 units in Q2 FY12.
- ALL sold ~3,400 engines during Q2 FY12, and there is increasing shift towards in-house manufactured engines as compared to outsourced engines. The company has also raised engine prices ~4% during July 2011.
- Freight rates in Southern and Eastern region has moderated however rates have increased in Northern and Western region. Macroeconomic factors like rising Interest rates and fuel cost are likely to affect consumer sentiments negatively. ALL is expecting its market share to be maintained ~25%, though overall industry growth rate is likely to moderate ~5-6%.
- International prices of key raw material like Copper, Aluminum are softening however the benefits are partially offset by the adverse exchange rate movement.
- About performance Joint Ventures:
 - JV with Nissan: The JV has recently launched its first product 'Dost' under Nissan JV with volume of 210 units in October 2011. In order to avail VAT incentives, the products inside Tamil Nadu will be sold directly by JV whereas outside TN will be sold under ALL. The company is targeting target of 12,000 units in H2 FY12 and ~50,000 units in FY13.
 - JV with John Deere: The JV is expected to start production from November 2011 with launch of Backhoe loader. The production will be gradually ramp up to ~9,000 units by FY13.
 - JV with Continental: The JV has started supplying electronic components for ALL's U-Truck platform, and ALL is expecting annual turnover of ~Rs 20 crore once operation stabilize.

Eicher Motors Limited

Growth momentum continues; gained market share across all major segments

Eicher Motors - Fact Sheet

Year of Incorporation	1982
Chairman	Mr. S Sandilya
Product Portfolio	Motor Cycles (Standalone), CVs
Manufacturing Facilities	Pithampur, Dewas, Thane
Segments Present	Strong presence in 6T-16.2T, Gaining traction in HCV (>16.2T) segment
Revenues CY10	Rs 4,397.1
PAT CY10 (Concern Share)	Rs 188.9 crore
Net Worth CY10 (Rs. Crore)	Rs 1,232.1 crore

Revenue Growth – Eicher Motors Limited (EML) reported another strong quarter with strong growth across its motorcycle (standalone) and VE Commercial Vehicles (VECV, 54.4% subsidiary) business. At consolidate level, on YoY basis, the company has reported strong growth of 32.1% largely driven by strong performance of VECV which constitutes ~80% of its overall revenue.

VECV is a strong player in domestic 5-12T segment, and it is gradually making inroad into largely duopolistic HCV segment. However, Volvo trucks volumes continued its decline reporting -36% YoY to 139 units affected by sharp decline in mining activity.

Profitability – Operating margin improved by 277 bps to 10.4% on YoY basis, largely supported by lower raw material cost. Sharp decline in trading activity due to decline in Volvo Truck's sales has resulted in sizeable reduction in raw material expenses. Net margins have remained fairly stable around 8.5% over last three quarters.

Key Development – In Q3 CY11, VECV launched low floor city bus and the company has received order for 20 such buses from Gujarat Government.

EML Consolidated	Q3 CY10	Q3 CY11	Q2 CY11
Operating Income	1,098.4	1,451.3	1,298.4
YoY Growth (%)	27.8%	32.1%	25.0%
OPBDIT	83.9	151.1	126.2
Less: Depreciation	14.8	16.2	15.4
Less: Interest Charges	3.2	3.4	2.1
Other Income	18.3	28.9	41.2
Exceptional Gain/Loss	-	-	-
PBT	84.3	160.4	149.9
Less: Tax	20.3	40.1	33.8
PAT (Concern Share)	38.7	73.7	76.3
OPBDIT/OI (%)	7.6%	10.4%	9.7%
PAT/OI (%)*	5.8%	8.3%	8.9%

Source: Company Data, ICRA Estimates; * without concern share

Note: Financials are for Eicher Motors Limited (Consolidated)

EML Consolidated	Q1 CY10	Q2 CY10	Q3 CY10	Q4 CY10	Q1 CY11	Q2 CY11	Q3 CY11
Operating Income	1,040.9	1,038.5	1,098.4	1,243.5	1,389.7	1,298.4	1,451.3
Growth (%) - YoY	74.7%	66.7%	27.8%	41.3%	33.5%	25.0%	32.1%
OPBDIT	91.2	85.5	83.9	120.5	162.4	126.2	151.1
PAT (Concern Share)	40.2	55.2	38.7	54.9	73.3	76.3	73.7
OPBDIT/OI (%)	8.8%	8.2%	7.6%	9.7%	11.7%	9.7%	10.4%
PAT/OI (%)*	6.4%	8.0%	5.8%	7.5%	8.8%	8.9%	8.3%

Source: Company Data, ICRA Estimates; Amounts in Rs. Crore; Note: Financials are for Eicher Motors Limited (Consolidated) * without concern share

ICRA Ratings

Long Term	[ICRA]AA-
Short Term	[ICRA]A1+
Outlook	Stable

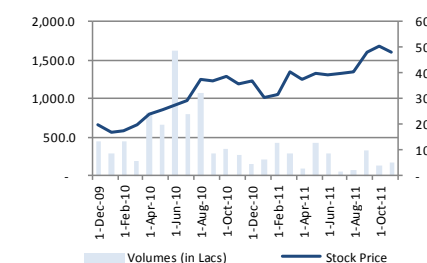
EML's Shareholding Pattern (%)

Promoters	55.2
Aktiebolaet Volvo	8.4
FII's	6.0
DII's	17.4
Others	13.0

EML's Price Performance (%)

	3M	12M
EML	3.6%	26.5%
BSE Auto	-3.7%	-17.0%
BSE Sensex	-5.0%	-19.8%

Stock Movement



Bloomberg Code EIM
Market Capitalisation Rs. 4,048 Crore
Valuations

	CY11e	CY12e
Price/Earnings	13.7	12.1
Price/Sales	0.7	0.6

Source: Bloomberg

Eicher Motors Limited: Business Overview

VE Commercial Vehicles Ltd. is a 50:50 joint venture between the Volvo Group (Volvo) and Eicher Motors Limited (EML). Operational since July 2008, VE Commercial Vehicles Ltd. (VECV) comprises of five business verticals – Eicher Trucks and Buses, Volvo Trucks India, Eicher Engineering Components and VE Powertrain. VECV includes the complete range of Eicher's commercial vehicles, components and engineering design businesses as well as the sales and distribution of Volvo trucks. Eicher Trucks & Buses have a wide offering in the mass market, 5-40T range, while Volvo Trucks have a presence in the premium, high performance and heavy duty segments in the 25-49T range with significant sales derived from high-end tippers for the mining segment.

Table: EML's financial performance

Q3 CY11 Financials	Standalone	Consolidated	Subsidiary [^]
Operating Income	181.2	1,451.3	1,270.1
YoY Growth (%)	63.0%	32.1%	28.7%
OPBDIT	23.1	151.1	127.9
PBT	21.0	160.4	139.4
OPBDIT/OI (%)	12.8%	10.4%	10.1%
PBT/OI (%)	11.6%	11.1%	10.9%

Source: Company, ICRA Research; ^: Consolidate - Standalone

Note: VECV is a subsidiary of Eicher Motors Limited, and its sales constitutes majority (~80%) of consolidated revenue. Detailed financials of VECV are not available on quarterly basis

Table: VECV's volume breakup across segment

	Q3 CY10	Q3 CY11	Change (%)	Q2 CY11
Goods	8,452	10,522	24.5%	8,812
3.0-6T	154	268	74.0%	551
6.0-7.5T	1,374	1,749	27.3%	1,291
7.5-12.0T	5,426	6,360	17.2%	5,194
12.0-16.2T	976	1,385	41.9%	1,096
16.2T-25T	198	223	12.6%	268
>25T Rigid	272	459	68.8%	327
>35T	52	78	50.0%	85
Passenger	2,093	2,673	27.7%	3,267
5.0-7.5T	1,216	1,562	28.5%	2,024
7.5-12.0T	759	855	12.6%	1,055
12.0-16.2T	118	256	116.9%	188
Total	10,545	13,195	25.1%	12,079

Source: SIAM, ICRA Research

Performance Update

VECV is amongst established player in the domestic CV industry with strong presence in 5T-12T segment, and the company is aggressively pursuing its goal to establish itself as key player in domestic M&HCV industry which is largely dominated by TML and ALL. VECV is leader in 7.5T – 12T segment, and it is gradually making inroads into largely duopolistic HCV segment. The company has also strengthened its position in passenger segment wherein it has registered growth of 27.7% on YoY basis against 6.6% growth witnessed by passenger CV industry during Q3 CY11.

Key takeaway from Q3 CY11 conference call:

- Strong momentum continues in HCV segment, wherein the growth was largely driven by tipper segment however volumes in goods/cargo segment has declined during the same period. VECV now accounts for ~3.2% share in domestic HCV segment and ~10% share in tipper segment.
- The company is in process to enhance its monthly production capacity from 4,000 units currently to 5,500 by end of CY12. There are plans to gradually increase capacity to ~8,000 units per month over next three years.
- VECV engine plant is on schedule and commercial operation will commence by Q1-CY13. Current engine capacity stands at ~50,000 units which will be augmented by new engine capacity of ~85,000 units.
- Dealership strength stands at ~213 dealers, out of which about 145-150 are 3S (Sales, Service & Spare) dealers. The company has added 14 new dealers in current year (CY11) and another 10-12 could be added in next six months.
- There is lag effect of 1 quarter in raw material price movement on margin and management expects some improvement in margins from next quarter onwards.
- Working capital requirement continues to remain negative. Liquidity position is strong, with EML at consolidate level has around Rs. 1,700 crore of cash and liquid investments (including ~Rs 1,200 crore with VECV).

SML ISUZU LIMITED

Strong export growth drives revenue; steady improvement in share of non auto business

Swaraj Mazda - Fact Sheet

Year of Incorporation	1983
Promoter Group	Sumitomo Corporation & Isuzu
Product Portfolio	Commercial Vehicle
Manufacturing Facilities	Nawanshahar (Punjab)
Segments Present	5T-12T segment (Goods and Passenger)
Revenues FY11	Rs 893.0 crore
PAT FY11 (Concern Share)	Rs 36.6 crore
Net Worth FY11 (Rs. Crore)	Rs 212.8 crore

	Q2 FY11	Q2 FY12	Q1FY12
Operating Income	200.0	248.6	239.0
<i>YoY Growth (%)</i>	28.8%	24.3%	21.1%
OPBDIT	16.6	21.2	18.0
Less: Depreciation	2.1	2.5	2.4
Less: Interest Charges	2.0	1.2	1.4
Other Income	-	-	-
Exceptional Gain/Loss	-	-	-
PBT	12.5	17.5	14.2
Less: Tax	3.2	5.6	4.3
PAT (Concern Share)	9.3	11.9	9.9
OPBDIT/OI (%)	8.3%	8.5%	7.5%
PAT/OI (%)	4.6%	4.8%	4.1%

	Q4 FY10	Q1 FY11	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12
Operating Income	221.4	197.3	200.0	222.4	282.1	239.0	248.6
<i>Growth (%) - YoY</i>	62.9%	23.0%	28.8%	18.0%	27.4%	21.1%	24.3%
OPBDIT	18.8	11.4	16.6	18.7	22.9	18.0	21.2
PAT	8.9	5.1	9.3	9.7	12.5	9.9	11.9
OPBDIT/OI (%)	8.5%	5.8%	8.3%	8.4%	8.1%	7.5%	8.5%
PAT/OI (%)	4.0%	2.6%	4.6%	4.4%	4.4%	4.1%	4.8%

Source: Company Data, ICRA Estimates; Amounts in Rs. Crore

Revenue Growth – SML ISUZU Limited (SML) continued its growth momentum registering a 24% growth in top line during Q2 FY12. The growth was supported by volume growth as well as improvement in realization. On QoQ basis, SML volume grew by 3.3% whereas revenue growth was 3.7%.

Profitability – Barring an exception of Q1 FY11, the operating margin of SML has remained in the range of 7.5%-8.5% over last seven quarters. On YoY basis, the company has reported improvement of 26 bps in OPM to 8.5% whereas on QoQ basis, OPM improved by 101bps largely on account of improved operating leverage.

Development – In July 2011, SML launched its first truck in 12T-16T segment, which will be marketed under badge of ISUZU. The truck was initially launched in Tamil Nadu, with a price tag of ~Rs 14 lakh for fully built truck (with Cab and Cargo body).

ICRA Ratings

Long Term	[ICRA] A+
Short Term	[ICRA] A1+
Outlook	Stable

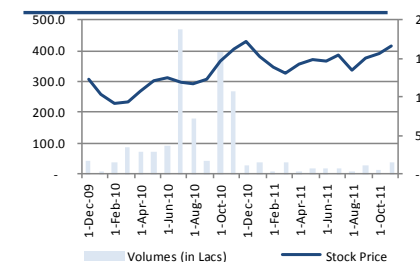
Shareholding Pattern (%)

Sumitomo Corporation	55.0
ISUZU Motors Limited	4.0
FII's	6.7
DII's	9.6
Others	24.7

Price Performance (%)

	3M	12M
SML	7.4%	-4.3%
BSE Auto	-3.7%	-17.0%
BSE Sensex	-5.0%	-19.8%

Stock Movement



Bloomberg Code SM
Market Capitalisation Rs. 583 Crore
Valuations

	FY12e	FY13e
Price/Earnings	NA	NA
Price/Sales	NA	NA

Source: Bloomberg

SML ISUZU LIMITED: Business Overview

Incorporated in 1983, SML Isuzu Limited (SML, formerly Swaraj Mazda Limited) was initially set up under the name of Swaraj Vehicles Limited for the manufacture of Light Commercial Vehicles (LCVs). In 1984, the company was promoted by Punjab Tractors Limited (PTL) in technical and financial collaboration with Mazda Motor Corporation, Japan and Sumitomo Corporation, Japan. The technical collaboration agreement with Mazda expired in 2004 and Mazda exited by selling off its stake to Sumitomo Corporation. Around the same time, SML entered into a technical collaboration agreement with Isuzu Motors, Japan. SML operates in the Light Commercial Vehicle (LCV) and Medium Commercial vehicle (MCV) segments of the automobile industry. The company has a manufacturing facility in Nawanshahar, Punjab with a capacity to manufacture 18,000 units and has a product portfolio comprising of buses, trucks, ambulances, water tanks etc.

Table: SML's volume breakup across segment

SML ISUZU	Q2FY11	Q2FY12	Change (%)	Q1FY12
Goods Carrier				
<5T	0	21	NA	7
5-7.5T	334	423	26.6%	250
7.5T-12T	1,071	1,145	6.9%	1201
>16 T	0	13	NA	4
Sub Total - Goods	1,405	1,602	14.0%	1462
Passenger Carrier				
5-7.5T	855	911	6.5%	919
7.5T-12T	899	749	-16.7%	769
12T-16T	20	16	-20.0%	23
Sub Total - Passenger	1,774	1,676	-5.5%	1711
Total	3,179	3,278	3.1%	3173

Source: SIAM, ICRA Research

Table: SML's market share in 5T-12T passenger carrier segment

Passenger Carrier	Q2 FY11	Q2 FY12	Q1 FY12
5.0-7.5T	5,756	7,546	7,285
– Tata Motors Ltd	60.5%	64.4%	58.8%
– SML ISUZU	14.9%	12.1%	12.6%
– Mahindra Navistar	8.6%	7.0%	11.0%
– VECV	21.1%	24.4%	27.8%
7.5-12.0T	3,861	4,281	4,143
– Tata Motors Ltd	44.1%	44.3%	37.8%
– SML ISUZU	23.3%	17.5%	18.6%
– VECV	19.7%	20.0%	25.5%

Source: SIAM, ICRA Research

Performance Update

SML is a small player in domestic CV industry with market share of 1.7% (H1 FY11); however, in certain segment (5T-12T) the company has strong presence. The company offers its products mainly in the 5.0-7.5 ton (T) and 7.5-12.0T goods and passenger carrier CV segments, which together accounted for 14.8% of the total CV industry volumes in H1 FY12 (14.9% in H1 FY11). Recently, the company has also forayed into higher tonnage bus segment wherein it is supplying products designed by ISUZU. The sales mix is fairly balanced between Goods and Passenger segment.

As per estimates, industry bus sales in the 5.0-12.0T segment are derived in an equal proportion from three user segments – schools & colleges, office staff and route permits/ STUs. SML, however, derives around 60-70% of its bus sales from the school bus segment with the buses built on the Mazda platform. The remaining bus sales are to other user segments including tourist and staff transportation and STUs. Overall, the school/ college bus user-segment is considered relatively safer by financiers making it less vulnerable to shocks arising from lack of finance availability.

SML had a respectable market share in the 5.0-12.0T school bus segment with its competitors being TML, M&M and VECV. However, over past few quarters, in 5-12T segment, SML is gradually losing market share to its competitors, especially VECV who has been aggressively targeting 5-12T bus segment.

Annexure: Industry Volumes & Market Share Analysis

Exhibit: Segment-wise Industry Volumes

Domestic Industry Volumes								Change (%) in		
	FY11	Q1 FY11	Q1 FY12	Q2 FY11	Q2 FY12	YTD FY11	YTD FY12	Q1	Q2	YTD
LCV Goods	316,140	67,095	84,212	73,972	100,491	191,981	253,954	25.5%	35.9%	32.3%
LCV Passenger	37,480	11,566	12,381	9,012	13,097	29,520	32,366	7.0%	45.3%	9.6%
LCVs	353,620	78,661	96,593	82,984	113,588	221,501	286,320	22.8%	36.9%	29.3%
M&HCVs Goods	275,235	59,642	64,091	66,900	73,727	163,494	185,151	7.5%	10.2%	13.2%
M&HCVs Passenger	47,553	11,574	10,779	13,082	11,808	31,803	28,494	-6.9%	-9.7%	-10.4%
M&HCVs	322,788	71,216	74,870	79,982	85,535	195,297	213,645	5.1%	6.9%	9.4%
CVs	676,408	149,877	171,463	162,966	199,123	416,798	499,965	14.4%	22.2%	20.0%

Source: SIAM, ICRA Estimates; YTD is till November 2011

Exhibit: Segment-wise Market Share

	FY11	Q1 FY11	Q1 FY12	Q2 FY11	Q2 FY12	YTD FY11	YTD FY12
<u>LCVs - Goods</u>							
Tata Motors	57.9%	55.8%	60.7%	57.3%	59.6%	57.1%	59.1%
Mahindra & Mahindra*	34.4%	36.1%	31.8%	34.6%	33.0%	35.1%	33.3%
<u>LCVs - Passenger</u>							
Tata Motors	48.4%	53.1%	43.0%	42.3%	43.1%	46.7%	42.6%
Force Motors	22.2%	16.3%	29.6%	25.2%	33.0%	28.4%	33.4%
Mahindra & Mahindra*	12.8%	15.0%	11.0%	14.8%	9.7%	11.1%	9.7%
<u>M&HCV - Goods</u>							
Tata Motors	62.3%	61.5%	64.3%	61.1%	61.8%	62.9%	63.2%
Ashok Leyland	22.8%	25.2%	19.2%	24.9%	21.1%	22.6%	19.6%
Eicher Motors	10.1%	9.2%	10.2%	9.6%	10.8%	10.0%	10.9%
<u>M&HCV - Passenger</u>							
Tata Motors	43.5%	47.3%	40.1%	44.9%	43.1%	45.3%	42.6%
Ashok Leyland	43.0%	36.1%	40.4%	41.5%	40.2%	40.2%	39.7%
Eicher Motors	5.1%	7.7%	10.3%	5.6%	9.1%	5.8%	9.3%

Source: SIAM, ICRA Estimates; YTD is till November 2011 *included MNAL volumes